

The GST credit

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The federal goods and services tax (GST) was introduced in 1991. Unlike its predecessor, the manufacturers' sales tax, which was levied only on manufactured goods, the GST applies to almost all goods and services. Initially set at 7%,¹ GST is charged over and above any provincial sales tax.²

Unlike income tax where the rate increases with income, the GST is levied at the same rate for everyone. As a result, low-income consumers end up paying relatively more of their income in GST than those with higher incomes. To alleviate some of the burden on low-income Canadians, the federal government introduced a GST tax credit. The credit is tied to personal income rather than the amount of GST paid. Besides personal income, the credit amount depends on marital status, number of children, and spousal net income as reported in the previous year's tax return.³ The credit is adjusted for inflation as measured by the change in the consumer price index. Recipients are issued a cheque on the 5th of January, April, July, and October.

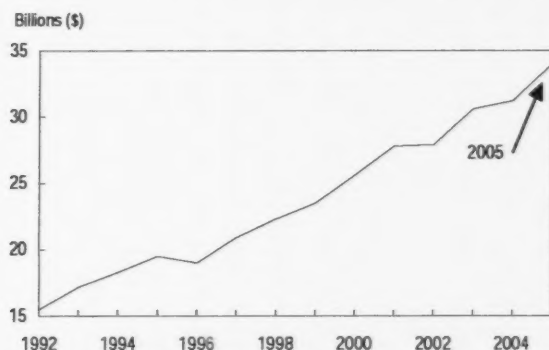
This article looks at issues surrounding the GST and the GST credit. How important is the GST as a source of federal government revenue? How does

it relate to personal disposable income and other consumption taxes? How much of the entire GST take is paid back to individuals? How many are receiving the GST credit, and who are they? Does the credit help redistribute income? The 2003 Survey of Labour and Income Dynamics (SLID), and federal revenue and expenditure data are used to answer these questions.⁴

The family perspective

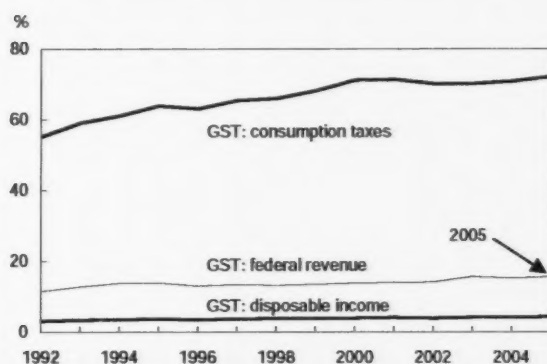
Since the economic well-being of an individual also depends on family income rather than just personal income, those who qualify for the GST credit are not necessarily disadvantaged. An example would be a young adult living with parents and working part time at a low-paying job. Another reason to look at the GST credit in a family income context is that the majority of recipients 16 and over, other than unattached individuals, are from multiple-earner families or those with more than one recipient (for instance, a child and another relative of the major income recipient living in the same family).

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Chart A GST revenue has risen steadily since its introduction


Source: Federal government revenue and expenditure

Government revenue from the GST has climbed steadily, from \$15.5 billion in 1991/1992 to \$34.0 billion in 2004/2005 (in current dollars). The rise can be attributed to increased consumer spending, which in turn has been influenced by factors such as population growth, family make-up, favourable economic conditions, higher income levels, easier credit, lower interest rates, and changing spending patterns. A spending spree between 2002 and 2005 alone accounted for 33% of the increase in GST collected since 1991/1992.

Chart B GST is the major consumption tax and a key source of federal government revenue


Source: Federal government revenue and expenditure

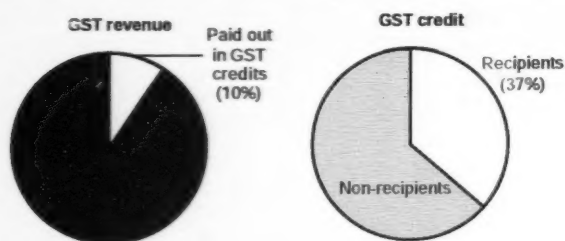
amusement. The GST accounted for 72% of consumption taxes in 2004/2005 compared with 55% in 1991/1992.

While the relative importance of other consumption taxes has declined, the GST share of federal revenue rose from 12% in 1991/1992 to 16% in 2004/2005. However, between 2000 and 2005, GST intake grew almost twice as much as total federal revenue—33% versus 18%.

GST is paid from personal disposable income—that is, total income less income tax, Canada or Quebec Pension plan contributions, and Employment Insurance premiums. Canadians paid 4.4% of their disposable income in GST in 2005 compared with 3.2% in 1992. Over this period, the growth in GST paid also outpaced income growth—120.0% versus 60.9%.

The GST is the main consumption tax in Canada. Others include customs duties as well as taxes on alcoholic beverages and tobacco products, gasoline, and

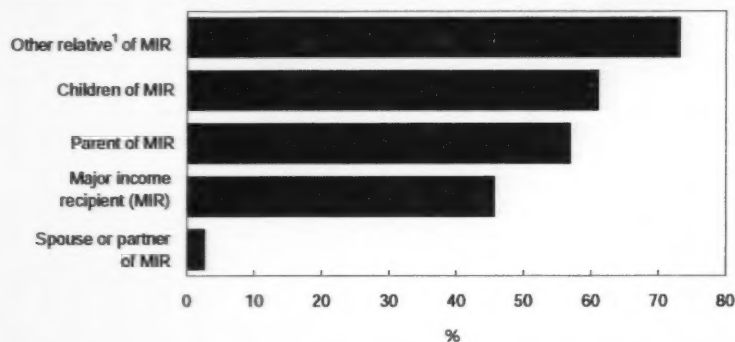
Chart C Over one-third of persons 16 and older received a GST credit in 2003, accounting for 10% of all GST collected



GST revenue in 2003 was \$30.6 billion. Of this, \$2.9 billion was paid back as a credit to 9.1 million of the 24.8 million taxfilers aged 16 and older, for an average of \$322 per recipient.⁵ SLID treats this credit as a government transfer.

Sources: Federal government revenue and expenditure, 2003;
Survey of Labour and Income Dynamics, 2003

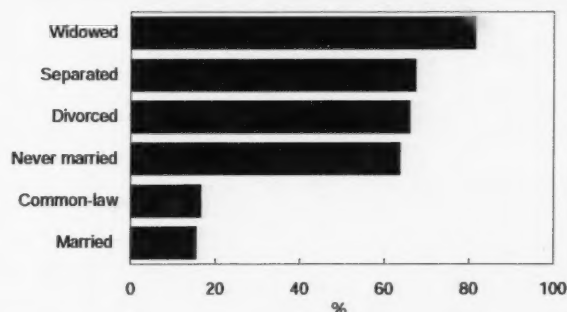
Chart D Children and parents of major income recipients were more likely to receive a GST credit



¹ Includes sibling, grandparent, grandchild and other relatives.
Source: Survey of Labour and Income Dynamics, 2003

gram stipulates that only the one with the larger income can claim the credit. The high proportions of parents, siblings and grandchildren receiving the credit could be due to their relatively smaller representation among persons 16 and over, since they represented only 11% of all recipients.⁷ Nevertheless, major income recipients accounted for 65%, and children for another 22%. These two groups therefore accounted for 87% of all GST credit recipients.

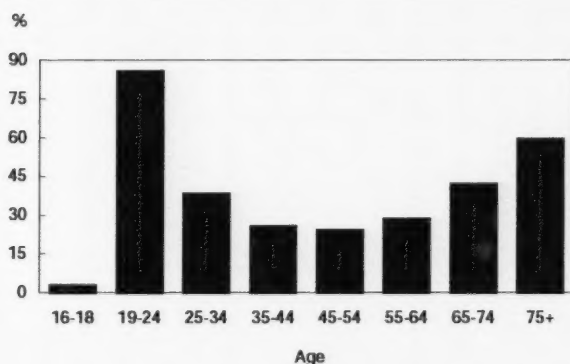
In economic families, major income recipients were less likely to receive a GST credit than children, grandchildren, parents or siblings of major income recipients.⁶ Spouses or partners were least likely because the pro-

Chart E More singles got a GST credit

Source: Survey of Labour and Income Dynamics, 2003

Single individuals (never married) were more likely than married or common-law to receive a GST credit; and the widowed are more likely than single, separated, or divorced. This is largely due to income differences. For instance, married persons had a mean income of \$36,300 compared with \$19,700 for singles.

Among GST credit recipients in 2003, 48% were single; 28% were separated, divorced or widowed; and the remaining 24% were married or living common law. Their shares of the total credit were 41%, 29% and 30% respectively. Those who were not single had a larger credit share than their population representation, largely because some had young children living with them. The credit increases with the number of children in the family under 18.

Chart F Young adults and seniors were more likely to receive a GST credit

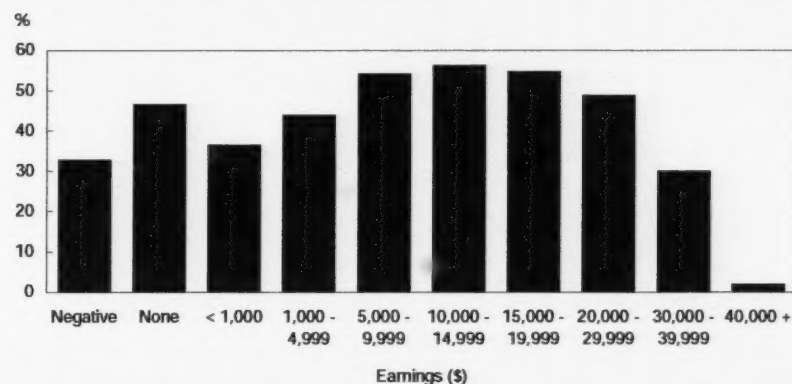
Source: Survey of Labour and Income Dynamics, 2003

Since young adults (19 to 24) and seniors (65 and over) both have lower incomes, they are much more likely to receive a GST credit. In 2003, 86% of those

in the 19-to-24 age group received a credit, as did 42% of those aged 65 to 74, and 59% of those 75 or older. One in four recipients was a young adult, and one in five was a senior. These two groups accounted for 45% of all recipients.

In the young adult category, 64% were children of major income recipients, and another 29% were themselves the major income recipient (likely unattached individuals). On the other hand, among seniors, 80% were major income recipients, and just over 10% were parents of major income recipients.

Among the young adults, 40% reported attending school as their major activity during the reference year, while 36% were working at a job or business. Overall though, half of persons 16 and over attending school (most likely a postsecondary institution) in 2003 received a GST credit.

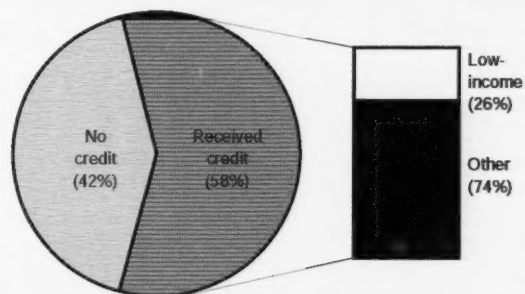
Chart G Persons with earnings between \$5,000 and \$20,000 were more likely than others to receive a GST credit

Source: Survey of Labour and Income Dynamics, 2003

Since the GST credit is tied to personal income, it is not surprising that a higher proportion of low earners received a credit in 2003. The highest receipt rate (56%) was for those with earnings between \$10,000 and

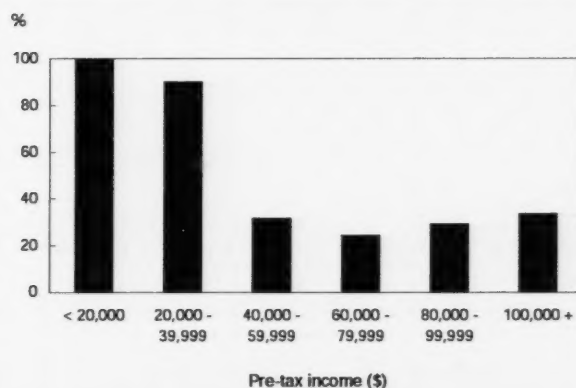
\$14,999, while the rate for those with no earnings at all was 46%. The rate was under 2% for those with earnings of \$40,000 or more.

Among all recipients, 36% had no employment earnings, while 24% had earnings less than \$10,000. Among those with no earnings, nearly 70% were senior major income recipients, while 9% were parents and 12% were children of major income recipients. Among those with earnings under \$10,000, 48% were major income recipients, 3% were parents, and 39% were children.

Chart H Only a quarter of families receiving a GST credit were in low income

Source: Survey of Labour and Income Dynamics, 2003

According to SLID, the 9.1 million GST credit recipients in 2003 came from 7.5 million of the 13.0 million economic families in Canada. Among families receiving a credit, only 26% were classified as low-income according to Statistics Canada's low-income cutoff measures. In other words, the majority of families who received a GST credit were not considered to be in straitened circumstances. Their relative shares of the total \$2.9 billion GST credit were similar to their respective representations, resulting in an average credit of almost \$390 each.

Chart I One-third of families with income of \$100,000 or more received a GST credit


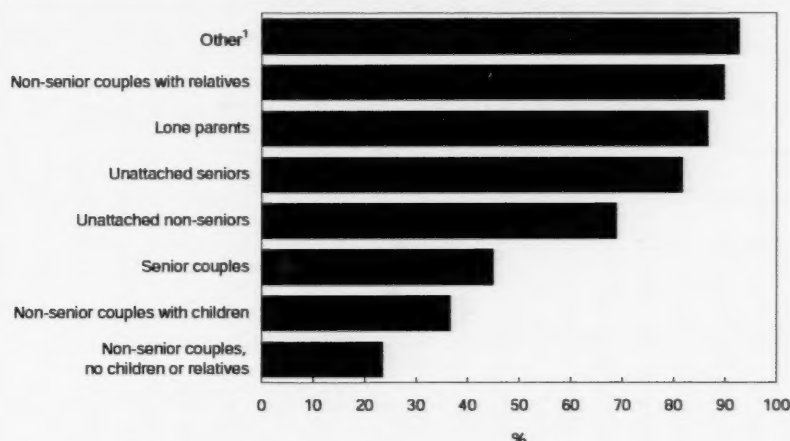
Source: Survey of Labour and Income Dynamics, 2003

Almost all families with income under \$20,000 received a GST credit. This compared with 90% of those with income between \$20,000 and \$39,999,

dropping to 24% for families with income between \$60,000 and \$79,999, and then rising to 33% for those with income of \$100,000 and over.

This variability by income is largely due to differences in family make-up. For instance, among those with income under \$20,000, 76% were unattached individuals, 12% were couples, and 8% were lone parents. Among families with income of \$100,000 and over, on the other hand, 85% consisted of couples living with children or other relatives, and another 11% were non-senior, multiple-earner families. This indicates that GST credit recipients in high-income families are children, parents, or other relatives of the major income recipient.

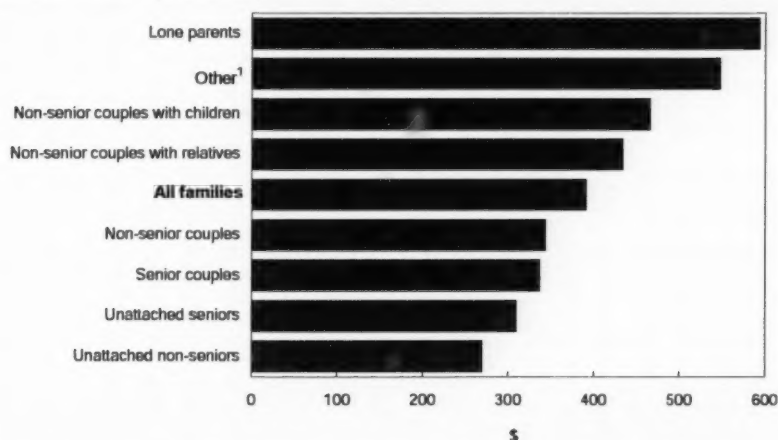
Overall, 72% of families reporting a GST credit had income under \$40,000, 20% had between \$40,000 and \$99,999, and only 8% had \$100,000 or more.

Chart J Non-senior couples without children or relatives were least likely to receive a GST credit


¹ Includes families other than those consisting of couples or lone parents.
Source: Survey of Labour and Income Dynamics, 2003

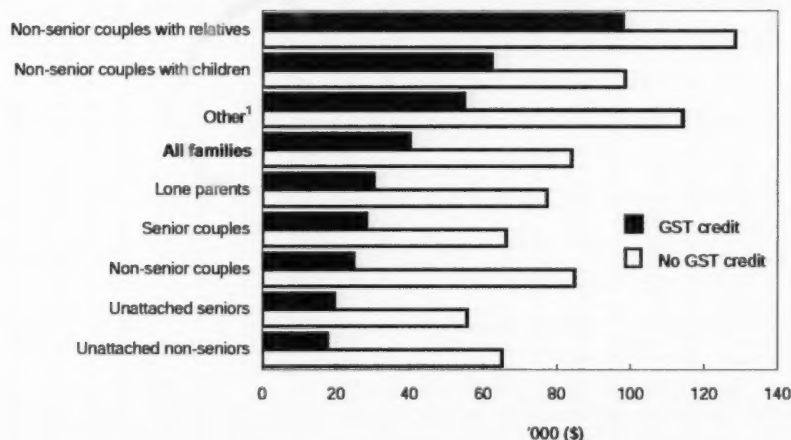
The proportion of families receiving a GST credit differed by family type; for instance, 23% of non-senior couples without children or other relatives received a credit, compared with 69% of non-senior unattached individuals. The senior equivalents of these two groups had higher proportions (45% and 81% respectively). Credits were more common in families composed of a non-senior couple living with relatives, in lone-parent families, and in other families (ranging between 86% and 92%).

Unattached individuals and lone-parent families accounted for about 50% of GST credit recipients and couple families for another 38%, the majority living with relatives other than children.

Chart K On average, lone-parent families received a larger GST credit than other families


¹ Includes families other than those consisting of couples or lone parents.
Source: Survey of Labour and Income Dynamics, 2003

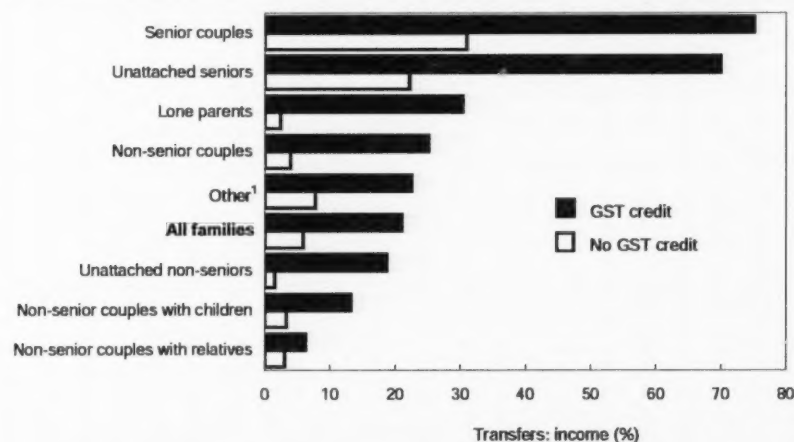
Lone-parent families (headed mostly by women) received the highest GST credit—\$592 compared with the national average of \$389. Their couple counterparts with children received \$464. Non-senior unattached individuals received the least credit (\$268) while their senior counterparts received \$308. The average credit of \$389 increased the purchasing power of recipients by \$1.07 a day.

Chart L Families receiving a GST credit had lower incomes than other families


¹ Includes families other than those consisting of couples or lone parents.
Source: Survey of Labour and Income Dynamics, 2003

The average income of families who received a GST credit was \$40,100, compared with \$84,000 for those not receiving a credit. (The lower income for those receiving the credit can be partly attributed to family make-up: more unattached non-seniors and lone-parent families). The GST credit of \$389 thus narrows the income gap between recipients and non-recipients by less than 1%.

Irrespective of family type, the mean income of those with a credit was less than those without, with the largest gap for unattached non-seniors (73%) and the smallest gap for non-senior couples living with relatives (24%).

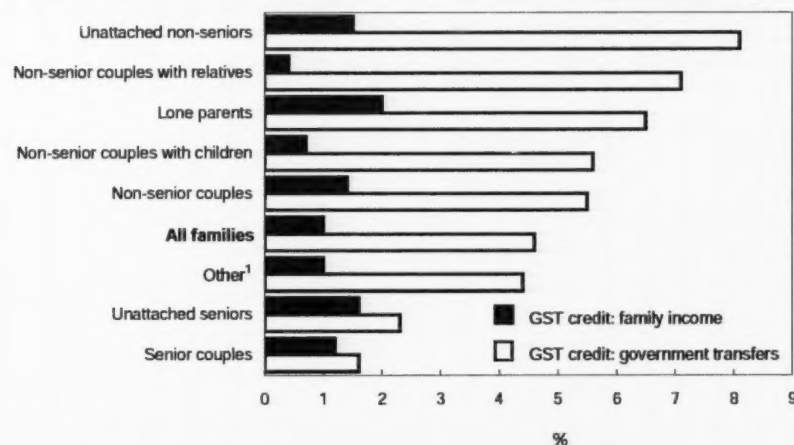
Chart M Families with a GST credit received more in government transfers

¹ Includes families other than those consisting of couples or lone parents.
Source: Survey of Labour and Income Dynamics, 2003

Of the total \$90.9 billion transferred from governments to families in 2003 (including the \$2.9 billion GST credit), \$63.5 billion (or 70%) was paid to families who received a GST credit.⁸ The average transfer was

\$8,431 compared with \$4,977 to other families. Because of their relatively lower incomes and higher transfers, families with a GST credit drew proportionately more income from government transfers—21% compared with 6% for those not receiving the credit.

The transfer-to-income ratio also varied by family type; for instance, senior couples and unattached seniors who received a GST credit drew most of their income from government transfers (75% and 70%), whereas their counterparts without a credit drew 31% and 22%. The ratio gap was much smaller for non-senior couples.

Chart N The GST credit is too small to have an effect on income redistribution

¹ Includes families other than those consisting of couples or lone parents.
Source: Survey of Labour and Income Dynamics, 2003

Compared with total pre-tax family income of \$764.7 billion, the \$2.9 billion GST credit is too small to have much impact on the redistribution of income among families. Overall, the GST credit represented 5% of total government transfers and just 1% of recipient family income.

These ratios varied by family type; for example, for lone-parent families, the GST credit represented 6.5% of government transfers and 2.0% of pre-tax income. The respective estimates for non-senior couples with children were 5.6% and 0.7%. For both non-senior and senior unattached individuals, the GST credit represented just 1.5% to 1.6% of income.

Summary

In 2002/2003, the federal government collected \$30.6 billion in GST. The GST accounted for 70% of consumption tax revenue and 16% of total government revenue. The government paid out \$2.9 billion in GST credits to 9.1 million persons aged 16 and over (or 7.5 million economic families). Major income recipients in economic families (including unattached individuals) accounted for 65% of all GST recipients, and children of major income recipients for another 21%. Although credits are designed to soften the burden of GST for families with lower incomes, only 26% of the total credit was paid to low-income families. Families with a GST credit received, on average, \$389, which represented 5% of their total government transfers or 1% of pre-tax income. Thus the GST credit has only a minimal effect on the redistribution of income.

Perspectives

■ Notes

- 1 According to the budget of May 2, 2006, the GST will drop to 6% on July 1, 2006. Another decrease to 5% is promised over the next five years. Based on the \$34 billion collected in 2005, a one-point reduction would mean a loss of almost \$5 billion in government revenue.
- 2 Alberta is the only province with no sales tax. Newfoundland and Labrador, New Brunswick and Nova Scotia have integrated their provincial sales tax with the GST, charging their residents only one tax, referred to as the harmonized sales tax, or HST.
- 3 For the year July 2003 to June 2004, the maximum credit was \$216 for an eligible adult and \$114 for each eligible child under 19. A couple with net income of less than \$7,022 and no children received a maximum credit of \$432, while a couple with one child could receive \$546. On the other hand, a family with one child was not entitled to a credit if their income was \$40,000 or more. Only one spouse in a family can claim the credit. For details on credit entitlement by marital status, number of children, and income level, visit the Canada Revenue Agency Web site at http://www.cra-arc.gc.ca/benefits/gsthst/gstc_payment02-e.html.
- 4 How the GST affects prices of goods and services in a market economy is beyond the scope of this study.
- 5 According to the Canada Revenue Agency, 9.4 million taxpayers received a GST credit between July 2003 and June 2004. The total amount paid was \$3.1 billion, for an average of \$325 per recipient. Since income information in SLID is derived mainly from authorized tax records, global statistics from both sources are very close. This paper uses SLID because it provides more detail on characteristics of individuals and their families.
- 6 This paper looks at persons 16 and older living as unattached individuals or in economic families. Unattached individuals live by themselves or in a household where they are not related to other household members. An economic family is a group of persons sharing a common dwelling and related by blood, marriage, common law, or adoption. Thus, all relatives living together are considered as one family unit, whatever the degree of family relationship.
- 7 The charts show the proportions who received a GST credit, whereas the percentage distributions of recipients are from unpublished data (available on request).
- 8 Besides the GST credit, government transfers include benefits from Old Age Security, the Guaranteed Income Supplement, the Allowance, Employment Insurance, the Canada and Quebec Pension Plans, the Child Tax Benefit, social assistance, provincial assistance and tax credits, and workers' compensation.